

TPT SIMPLIFICATION

with Proposed Senate Floor Amendment to H.B. 2111

Simplifying an unnecessarily burdensome system

- Arizona's TPT ("sales tax") system is complicated and overly burdensome.
- Many of the obstacles governments put in the way of taxpayers to simply pay the taxes they owe are unnecessary.
- Governor Brewer has been a strong advocate for sales tax simplification for the entire 30 years she's been an elected official in Arizona.
- Our system results in multiple licensing requirements, multiple tax returns, multiple state and local tax bases, multiple audits, and multiple varying state and local interpretations of the code in audit.
- Taxpayers shouldn't have to carry the administrative burdens of multiple governmental tax administrations that can't get their act together.
- Business should be focused on the special skills their employees bring to the marketplace, not on some byzantine series of tax codes about which even tax experts disagree.
- H.B. 2111 makes historic progress in providing much needed administrative relief to all taxpayers by giving them a single place to pay their taxes for all jurisdictions and protecting them from being subject to multiple audits by multiple jurisdictions.
- The bill also frees trade and service providers, many of whom are small businesses, from the complicated state and local tax regimes on contracting.

A single point of collection and administration

- Nearly all of the 7,000 sales tax jurisdictions in the U.S. are administered by the state. The exceptions are Alabama, Colorado, Louisiana and Arizona.
- ADOR already administers the taxes on behalf of the 73 program cities but there are 18 non-program cities that administer their own taxes.
- For a multijurisdictional taxpayer who operates in any of the 18 non-program cities, this means filing a separate return and writing a separate check to the state and each of the non-program cities.
- H.B. 2111 removes the burden associated with remitting taxes to multiple jurisdictions by creating a single point of collection for all taxpayers.
- All taxpayers will be able to remit a single TPT return and a single payment either through a state administered portal or on paper.
- Tax revenues will flow either through the portal or through ADOR administration to the appropriate jurisdiction in a timely, streamlined, manner.
- The new system will be designed to ensure that city finance departments are provided with data at a sufficient level of detail.

A single, uniform audit system

- Taxpayers are currently subject to audit by ADOR on behalf of the state, counties and 73 program cities. Additionally, taxpayers are subject to audit by the 18 non-program cities and 45 of the program cities that have self-audit authority.
- The system results in varying interpretations of the tax code and a bifurcated appeals process that frustrates taxpayer compliance.
- H.B. 2111 creates one standardized statewide audit system that is administered by ADOR.
- All audits will cover the state, county and city and will be conducted in accordance with a single uniform ADOR audit manual.
- All auditors will be trained and certified by ADOR on applicable state law and uniform allowable audit processes and procedures.
- All audits of multi-jurisdictional taxpayers will be conducted by ADOR.
- Audits of single-jurisdictional taxpayers may be conducted by a city auditor who is trained and certified by ADOR.
- Audits involving TPT on residential rental or advertising – taxes that are levied only by cities and towns – may be audited by a state-trained-and-certified city auditor. The cities will be required to coordinate through an IGA to ensure any taxpayer is subject to only a single audit on behalf of any affected jurisdictions.
- All taxpayer protests of TPT audits will go to the state's Office of Administrative Hearings (NOT to a municipal tax hearing office).

Relief for non-construction trades and service providers from burdens of state and city contracting taxes

- Arizona's TPT on contracting is complicated and confusing. It results in more audits and litigation than any other activity.
- Most other states impose a retail sales tax on the materials purchased by the contractor.
- In Arizona, a contracting tax is applied to 65% of the amount the contractor charges the final consumer. 35% is presumed to cover labor costs, irrespective of the actual costs of materials versus labor associated with the job.
- This system places an incredible administrative burden on all contractors, especially those who perform "trades" and services like plumbing, HVAC repair, and flooring providers since they typically work in multiple jurisdictions every day and are forced to comply with the complexities and nuances of the state and city tax codes at each job site.
- Trade or service providers who work directly for the property owner to maintain, repair or replace existing property will no longer be subject to the state or city contracting tax and instead will pay a retail tax on materials.
- A trade or service provider who is hired as a subcontractor will obtain a project specific exemption certificate from ADOR to buy materials tax exempt for that project.
- As a concession to city and town opposition, taxes on all other construction activity will remain as they are now.
- In response to municipal government requests, the proposal includes a five-year "hold harmless" provision for towns with a population below 5,000 at the average amount of prime contracting revenue collected from FY 2012-FY 2014.